

Private foundation taxable expenditures; literary award. An award by a private foundation to the person who has written the best work of literary criticism during the preceding year, whether it is an article, essay, treatise, or book, is not a taxable expenditure within the meaning of section 4945(d)(3) of the Code.

Advice has been requested whether grants to individuals made in the manner described below by a private foundation are taxable expenditures within the meaning of section 4945(d)(3) of the Internal Revenue Code of 1954.

The private foundation is a trust created for the purpose of encouraging and assisting in the development of a particular field of literary criticism. The annual net income of the trust is paid to the person who has written the best work of literary criticism during the preceding year, whether it is an article, an essay, treatise, or book.

The recipient of the award is determined by the majority vote of the selection committee, which consists of the heads of the English Departments of three prominent universities. The aim of the selection committee is to foster the spirit of the award by selecting that article or other work which demonstrates the highest level of critical and perceptive thinking in that particular phase of the literary field. The committee makes every effort to review all major publications in which eligible works may appear.

In addition the trust solicits the submission of eligible works by communicating the availability of the award to the general public in a variety of ways, including direct notice to the English literature departments of all major United States universities; dissemination throughout the intellectual and literary community of brochures describing the award and the eligibility requirements; monthly placement of a full-page advertisement describing the award and eligibility requirements in a trade magazine; and issuance of press releases to major newspapers throughout the country.

The selection committee will consider any eligible work submitted to it by an author, publisher, or other source. The choice of the recipient of the award is based solely on the selection committee's judgment.

Those eligible for the award are authors, critics, or reviewers who are United States citizens and whose works are published in the United States, either in newspapers, magazines, or other periodicals, or as individual publications, or broadcast on television or radio programs.

The award is granted in recognition of past outstanding achievement in the literary field, and is not intended to finance

any activities and no conditions are imposed on the manner in which it may be expended by the recipient.

Section 4945 of the Code imposes a tax on each taxable expenditure made by a private foundation.

Section 4945(d)(3) of the Code provides that the term 'taxable expenditure' includes any amount paid or incurred by a private foundation as a grant to an individual for travel, study, or other similar purpose by such individual, unless such grant satisfies the requirements of section 4945(g).

Section 53.4945-4(a)(3)(i) of the Foundation Excise Tax Regulations provides that a grant to an individual for purposes other than those described in section 4945(d)(3) of the Code is not a taxable expenditure within the meaning of that section, even if the requirements of section 4945(g) are not met.

The awards made to individuals under the program described above are granted in recognition of past achievements in the field of literary criticism. They are not intended to finance any future activities of an individual grantee. No conditions are imposed on the manner in which the awards may be expended by the recipients.

Since the awards in question are made for purposes other than those stated in section 4945(d)(3) of the Code they are not taxable expenditures within the meaning of that section.